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C O N F I D E N T I A L SECTION 01 OF 02 HONG KONG 000166

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SUBJECT: CASINO OPERATORS CRITICAL OF MACAU GOVERNMENT'S  
GAMING INDUSTRY OVERSIGHT

REF: 08 HONG KONG 1962

Classified By: Consul General Joe Donovan for reasons 1.4 (b) and (d)

¶1. (C) Summary: Senior gaming industry managers in Macau are disappointed with the Government of Macau's (GOM) gaming regulatory body, the Gaming Inspection and Coordination Bureau (known by its Portuguese acronym DICJ). They described DICJ as a lethargic organization whose oversight of junket operators has done little to stop illegal wagering in Macau. The Head of DICJ told us on January 16 that illegal gaming activities in Macau are "under control" and no new laws or regulations are required to assist his oversight efforts, other than "raising the gaming minimum age from 18 to 21." Macau's Legislative Assembly (LA) will enact new legislation by March 31 to expand the Commission Against Corruption's mandate to cover both the public and private sectors. End summary.

¶2. (C) Comment: U.S. casino executives in Macau carefully avoid public statements that imply criticism of the GOM's oversight of the gaming industry. They strive to maintain an effective public and private working relationship with GOM officials. Their privately expressed criticisms of the DICJ largely reflect unease about the earnings power, influence on government, and organized crime connections of Macau's junket operators. The junkets "manage" players who account for approximately 70 percent of all casino betting volume in Macau (reftel). While the DICJ is comfortable with the current statutory and regulatory framework governing the casinos, private sector leaders have noted many loopholes that enable junket operators – and the casino concessionaires themselves – to enter legal gray zones with little fear of investigation. Most of our gaming interlocutors in Macau believe the PRC shares their concerns about junket operators, especially since Macau's junkets source most their customers from Mainland China. Gaming market experts in Macau tell us the PRC will use its influence in the 2009 LA and Chief Executive elections to promote the selection of individuals amenable to greater regulatory oversight and control of the junkets.

Casino Regulatory Body Criticized for Lax Oversight  
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¶3. (C) DICJ's primary role is to regulate gaming operators and ensure that the Macau government collects its approximately 40 percent share of the casinos' gaming income. The DICJ has 230 inspectors physically co-located with Macau Judicial Police officers in each of Macau's 31 licensed casinos. DICJ inspectors do not carry firearms and have no police powers. The Head of DICJ Manuel Neves has held his current position for eleven years and has been employed by the DICJ since 1985. Neves told us the DICJ maintains "close

contact on a regular basis" with the Nevada Gaming Commission and Gaming Control Board. He affirmed that "the U.S. casinos are doing well on compliance."

14. (C) Two of the three large U.S. casino operators in Macau (Las Vegas Sands and MGM) shared their frustrations about DICJ oversight of the gaming industry with us. They alleged that junket operators are routinely licensed after cursory DICJ investigations, while the DICJ does not enforce its own reporting requirements when junkets grant credit to players. In addition, they accused the DICJ of turning a blind eye to widespread illegal practices such as side betting. (Note: Side betting involves secret agreements between junket operators and players under which, for example, each MOP 1,000 wagered at the casino in fact represents a MOP 10,000 bet. The junket operator and gambler settle the results from the remaining MOP 9,000 side wager between themselves later. The casino books no winnings from the side betting, and no gaming taxes are paid to the government. The junket operator collects 100 percent of what the casino would have normally earned on the side bet amount and is then able to offer the player a higher cash rebate, based on betting volume, than is currently allowed in Macau. End note.) A senior executive at MGM said, "There are some good people at DICJ, but if they're not directed to take enforcement action by Macau's political leadership, they won't."

15. (C) In contrast, a senior executive at Wynn said, "We have no complaints with the DICJ and have a great working relationship with them." His remarks reflect public statements by Wynn's CEO and majority shareholder, Steve Wynn. The Wynn executive said the DICJ and Macau police

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recently informed him that PRC law enforcement received intelligence about a plan to target Wynn with fake gaming chips during the 2009 Chinese New Year.

16. (C) Rather than comment on DICJ efforts to stamp out side betting, Neves told us "the side betting problem is not very big, and in any case, it's tough to prove and prosecute." With regard to criticisms of the DICJ's junket licensing practices, Neves said, "If you make hard rules in the beginning, no one applies. So we forgive small crimes in an applicant's background." Asked by EconOff which statutory or regulatory rules need to be tightened, to allow better oversight of gaming activities in Macau, Neves offered only one suggestion. He said, "We're looking to raise the casino entrance age from 18 to 21." He described illegal gaming activities in Macau as "under control."

17. (C) Neves said two major triad groups remain active in Macau - "14k" and "Shui Fong." He said the triads are "under control," and the DICJ and judicial police "have files on more than 90 percent of all triad members" in Macau. He said the triads' revenues will probably decline in 2009 along with Macau's gaming earnings, thereby implicitly linking the triads to Macau's gaming sector. Neves hoped the gaming downturn would not lead to an increase in triad-related crime.

Anti-Corruption Commission Mandate to be Expanded  
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18. (C) The Chief of Cabinet at Macau's Commission Against Corruption (known by its Portuguese acronym CCAC) Fanny Ho said Macau's LA is expected to approve by March 31 a significant expansion of the CCAC's mandate. While the CCAC is currently limited by law to corruption investigations involving government officials, the new law will expand CCAC's authority to the private sector. Ho said, "All persons in Macau will then be subject to CCAC investigation." Ho said a "government working group" is currently analyzing the completed draft of the new law, which she claimed is "highly supported" by Macau's citizens. (Note: The CCAC has 160 staff members, most of whom are investigators carrying side arms and holding police powers of investigation and

arrest. According to Macau's criminal penal code, all casino employees directly engaged in gaming activities are deemed to be civil servants who currently fall under the purview of the CCAC. This stems from the quasi-monopoly status of gaming companies operating in Macau. The CCAC Commissioner is empowered to unilaterally issue search warrants of commercial properties, excluding banks, law offices, medical treatment facilities and private residences. End note.)

¶9. (C) Ho said, "The integrity situation within Macau's government is not too bad now, especially compared to ten years ago." She attributed this to the CCAC's stepped-up anti-corruption activities, ethics training for all new civil servants, and "systematic prevention efforts" by the GOM to improve government procurement standards and the attitudes of civil servants about corruption. Ho said the CCAC continues to focus substantial effort on government procurement processes, which she described as "antiquated and still a big problem." A recent example is the January 2009 arrest of the President of Macau's Consumer Council Alexandre Ho Si Him on charges of awarding government contracts worth USD 750,000 (MOP 6 million) to his relatives. Alexandre Ho, a former LA member, was suspended from his position and has been released on bail pending further investigation. Fanny Ho said the CCAC believes "no one else" at the Consumer Council was involved in the corrupt practices.

¶10. (C) The CCAC cooperates closely with HKG officials, according to Ho, and "shares sensitive anti-corruption information" with PRC investigators approximately 30 times per year. She said the CCAC also shares information with gaming control boards in the United States and Singapore about casino executives, operations and market practices in Macau. Ho told us that Singapore gaming officials remain in close contact with the CCAC, especially regarding the casino operations and Macau-based executives of Las Vegas Sands, as that company will soon open the Marina Bay Sands hotel/casino in Singapore.

DONOVAN